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TO RUEHC/SECSTATE WASHDC PRIORITY 3127

INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE

RUCNCIS/CIS COLLECTIVE

RUCNMEM/EU MEMBER STATES COLLECTIVE

RUEHAK/AMEMBASSY ANKARA 5419

RUEHBJ/AMEMBASSY BEIJING 3146

RUEHKO/AMEMBASSY TOKYO 3011

RUEHIT/AMCONSUL ISTANBUL 3663

RUCPDOG/DEPT OF COMMERCE WASHDC

RHEHNSC/NSC WASHDC

RHEBAAA/DEPT OF ENERGY WASHDC

RHMCSUU/CDR USCENTCOM MACDILL AFB FL

RUEAIIA/CIA WASHDC

RHEFDIA/DIA WASHDC

RUEKJCS/JOINT STAFF WASHDC

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RUEHVEN/USMISSION USOSCE 3707

C O N F I D E N T I A L SECTION 01 OF 02 ASHGABAT 000875

SIPDIS

SCA/CEN; EEB

ENERGY FOR EKIMOFF/THOMPSON

COMMERCE FOR HUEPER

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SUBJECT: TURKMENISTAN: CHEVRON READY TO SUBMIT REVISED
PROPOSAL FOR ONSHORE DEVELOPMENT

Classified By: Charge Richard M. Miles, reasons 1.4 (b) and (d)

11. (C) SUMMARY: Chevron plans to present a new proposal for an onshore gas project to the Turkmen government. It will focus on development of the Minara, South Yolotan and Osman deposits, but not include exploration. Chevron is prepared to be flexible about the terms of an eventual agreement, but it must provide the basis for a long-term partnership that is more than a service contract. A first step would be a memorandum of understanding that would allow Chevron access to data about the deposits. Based on such data, the company could proceed with planning work on the scope and scale of the project. A second phase would involve an appraisal of the field, engineering studies and construction contracts. The proposal will be vague about Chevron's proposed revenue stream. Deputy Chairman Tagiyev's recent replacement by Turkmen gas Chief Hojamammedov might throw a wrench in the works, since Tagiyev had been urging Chevron to submit a revised proposal. On the other hand, coming from Turkmen gas, Chevron's likely partner, Hojamammedov should be well informed about how Chevron's proposal could fit into Turkmenistan's long-term plan for development of the gas sector. END SUMMARY.

12. (C) On July 9, the head of the local Chevron office briefed the Charge about the revised proposal for onshore development that the company will present to the government next week. He said he planned to meet with now former Deputy Chairman for Oil and Gas Tachberdi Tagiyev on July 16 for that purpose. (NOTE: On the following day, July 10, Tagiyev was removed from office and made the director of Turkmenistan's smaller oil refinery. His replacement is the former head of Turkmen gas Baymyrat Hojamammedov. END NOTE.) The Chevron rep said during the April visit of Chevron officials that included a meeting with President Berdimuhamedov, they had also met with Tagiyev and that a few weeks ago, Tagiyev had asked when Chevron would submit a new proposal.

13. (C) According to the Chevron rep, the new proposal is

focused on development of the Minara, South Yolotan and Osman gas fields, working on the subsalt, high sulfur deposits located there. There is no exploration component. Chevron wants to enter a long-term partnership with the state gas concern, something more than a service contract. He said Chevron would contribute its share of the investment, and would help the Turkmen side to obtain its share as well.

¶4. (C) Stating that Turkmenistan's gas production is currently not close to meeting its export commitments, especially after the Chinese pipeline comes on line, the Chevron rep said the company could help the Turkmen become a reliable energy supplier. In the proposal, Chevron will propose a signature bonus, without specifying an amount. In the Chevron proposal submitted last year, the company offered a USD 100 million signature bonus.

¶5. (C) It is Chevron's goal to reach an agreement that complies with the Turkmenistan Petroleum Law. The company does not need a production sharing agreement, since the revenue provisions of various types of agreements are similar, the Chevron rep said. The Chevron proposal is "flexible, but vague" about the Chevron revenue stream. He thought that a long-term agreement was unlikely at the outset. The first step would probably be a memorandum of understanding that would include the goal of an eventual long-term agreement and a confidentiality provision to allow access to data during the first phase of the project. Chevron is currently doing a lot of extrapolation about the deposits and needs to see data. The first phase could also include work on the scale and scope of the project and some

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additional seismic work. A Phase Two would involve an appraisal of the field, engineering studies and conclusion of engineering and construction contracts for building the complex.

¶6. (C) The Chevron rep said he would like to see the signing of a Chevron-Turkmen agreement coordinated with a high-level bilateral visit, combining two milestones. He suggested that a U.S.-Turkmen bilateral commission would only be useful if it was anchored to commercial or other concrete deliverables, otherwise the Turkmen would view the creation of the commission itself as an accomplishment with no need for further substance. He cited the example of the Turkmen-South Korean commission, noting that local Korean diplomats had told him that it has not been useful.

¶7. (C) Chevron is pursuing other areas with the Turkmen in hopes of improving their prospects for landing an onshore project. Following up on an earlier meeting at the Academy of Sciences, next week a team from Chevron Energy Solutions will meet with the Turkmen to discuss alternative energy, renewables and efficiency. Chevron is also waiting for the government to propose the names of six experts for a training trip to the U.S. later this month.

¶8. (C) COMMENT: By moving quickly to put together a revised proposal following its officials' meetings with Berdimuhamedov, Chevron is showing that it is serious about pursuing a project in Turkmenistan. Whether Tagiyev's removal from office will throw a monkey wrench in the works remains to be seen. While Tagiyev was familiar with Chevron and had urged a new proposal, his successor Hojamammedov comes from Turkmengas, Chevron's likely partner. He might show himself to be more open to new partners in light of the continuing difficulties with Turkmenistan's long-term partner Gazprom. END COMMENT.
MILES